

Testimony of

GreenStone Farm Credit Services

Before the

Farm Credit Administration Board

McLean, VA

June 26, 2003

Good Afternoon.

My name is Jim Schiller. I am the President and CEO of GreenStone Farm Credit Services. Our organization is an agricultural credit association with a subsidiary federal land credit association that serves the entire state of Michigan and 11 counties in northeast Wisconsin. We currently have \$2.7 billion in loans outstanding to over 16,000 customers. Other financial services provided include AgriSolutions products (farm accounting, farm software, tax consulting, tax preparation, farm business consulting), risk management insurance products including life and crop insurance, and agricultural and rural appraisals.

I have been privileged to serve agriculture and the rural community as a staff member for over 31 years. As all of us here today know, there has been tremendous change during that period of time. Banks and association consolidations have occurred in order for us to keep pace with a dynamic and changing agricultural and rural community.

Change is constant, and change is rapid. I commend Chairman Reyna and the FCA board for taking action to evaluate its regulations governing eligibility and scope of financing for borrowers of the Farm Credit System and seeking comments regarding revisions to FCA's definition of "Moderately Priced Rural Housing." The System cannot effectively serve rural America without changes to meet the marketplace, and we cannot operate under restrictive regulations adopted in the past.

Before I discuss the specific questions and issues requested, I would like to update you on some agricultural statistics.

Recent data from the United States Department of Agriculture identified the following:

- The vast majority of small farmers earn more money from off-farm than on-farm activities.
- 70.5% of all farms with off-farm income have sales less than \$25,000.
- For small farms with sales between \$10,000 and less than \$50,000, 88.9% have off-farm income and 57.4% have off-farm income greater than the amount of their agricultural sales.
- Relative to financing small minority producers, 81.1% of minority farmers have sales less than \$25,000 while 58.9% of them have off-farm income that exceeds \$25,000.

Michigan and Wisconsin are no exception to these trends. According to the 1997 census regarding both Michigan and Wisconsin 93% of farmers had less than \$250,000 of gross farm income. 84% of farms in Michigan and 75% in Wisconsin had gross farm income less than \$50,000.

As this illustrates, you can see why this segment of the rural community has a major economic impact. To arbitrarily restrict the scope of financing to these individuals adversely impacts their ability to contribute more significantly to the rural economy as well as needed portfolio diversification for Farm Credit System institutions.

Specific Comments Regarding Regulatory Change

Now let me specifically answer and discuss the questions outlined in the Request for Comment.

1. Should FCA retain or change its current definition of a bonafide farmer? § 613.3000)a(1)

This regulation currently defines a bonafide farmer, rancher, or aquatic producer as a person who either owns agricultural land or is engaged in the production of agricultural products.

- We believe this fairly represents a person who produces agricultural products or owns the land and assets that are necessary for the production of agricultural products.
- While I am not aware of any difficulties in our ability to serve agriculture and the rural communities through this definition, it should be kept in mind that new developments raise new questions about the use of “rural assets” for other uses than the production of food and fiber. For example, when energy and recreational projects using rural land and other similar activities support the development of rural communities, eligibility should not be restricted to a “bonafide farmer” for these expanded uses.

2. What limits if any should FCA place on lending for farmers’ other credit needs?

- It is our opinion that FCA should not restrict the lending for other credit needs beyond the letter of the statute. They should be consistent with the Act which “provide for an adequate and flexible flow of money into rural areas.”
- As per the Farm Credit System Reform Act of 1996, FCA should identify and eliminate all regulations not based on law. There is no differentiation between farm and part-time farm within the Act. Any oversight needed in this area should be left to the responsibilities of the farmer-elected boards of directors. FCA regulatory focus should be strictly focused on safety and soundness, and the organization’s ability to effectively administer credit that helps the borrower and the organization succeed without undue risk to other stockholders.

3. How should the agency regulate access to other credit needs of eligible farmers who derive most of their income from off-farm sources? Do you favor retaining

the current regulatory distinction between full-time and part-time farmers? If not, what would be a better approach?

- There should be no difference between the access to credit needs by either full-time or part-time farmers. Again, should there be restrictions, this would be contrary to the intent and actual wording of the Farm Credit Act.
- More and more farm businesses are supplemented by on-farm income. It is becoming more difficult to easily identify an operation that is solely agriculture in nature.
- As mentioned previously, 84% of farmers in Michigan and 75% of farmers in Wisconsin have gross farm income less than \$50,000.
- 55% of farms in the state of Michigan according to the 2002 updated Michigan Agricultural Statistics Service have \$10,000 in gross agricultural sales or less. This number compares closely to the national figure of 54% of all farms having less than \$10,000 in gross agricultural sales.
- Nationally these small farms produce over \$3 billion in market value of agricultural production and purchase over \$5 billion in capital goods (1999 Agricultural Economics and Land Ownership Survey). 95% of all farms in Michigan and Wisconsin have some amount of non-farm income. Approximately 45% of Michigan farms have non-farm income of \$50,000 or more.
- This, in and of itself, tells us that non-farm income is vital to preserve Michigan and Wisconsin's farmland and rural communities.
- The number of Michigan and Wisconsin farms continues to decrease as well as the number of acres of farmland. Undue restrictions on providing adequate financing to farmers relying on non-farm income will only accelerate this trend.
- Small farmers relying on non-farm income should have access to sound, adequate, and constructive credit to the extent of their creditworthiness so as to improve their income and well being. This inflow of funds to the rural community will help to preserve their small farms and rural lifestyle.
- Any restrictions in this area limit and inhibit the safety and soundness of Farm Credit organizations which would be able to diversify their portfolio by spreading risk and benefiting all farmers and rural members.
- Differentiating eligible loan purposes make significant market presence very difficult. Small farms rely on non-farm income and often finance personal needs with home equity. It is not effective in the marketplace to only accept loan applications for restricted purposes.

4. Should the Agency change the definition of “moderately” priced rural housing in § 613.3030(a)(4)? If you favor changing the definition, please offer specific recommendations.

- Yes, we favor a change by the Agency in the definition of “moderately priced.” This revised definition should assure the “adequate and flexible flow of money into rural areas” according to the statute. The definition should allow for the refinancing of normal new housing constructed according to the standards of the rural community in which it resides. Since new homes generally cost more than homes built in prior years, the definition needs to allow for the ordinary increase in cost and value for buyers of a new home experience.
- The limitation of sales studies to the 75th percentile of all homes existing in the area is too restrictive. New homes and construction costs in this range are most often at the very bottom of the new houses being built in the rural area.
- The regulation should be revised to allow the sales study data to encompass newly constructed homes only. The 75th percentile prescriptive provision should be removed with only the requirement remaining that the moderate priced maximum amount be documented according to credible data or studies relevant to the area. The threshold for this compliance should be at the discretion of the farmer-owned board of directors with regulatory oversight. Housing and rural communities vary throughout the nation. A prescribed value does not serve transitional communities effectively.

We appreciate the opportunity to present comments around these critical areas of scope and eligibility of financing as well as thoughts on moderately priced residential housing.

Thank you.